

THE INTER-TEMPORAL COMOVEMENT OF WORLD EQUITY RETURNS AFTER THE 1987 CRASH

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ABSTRACT

Now that the world is a global village, the pursuit of profiteering opportunity, can be done gainfully. This study sought to evaluate the investment diversification benefit across world stock markets, in terms of index risk and return characteristics and coupling with the treatment of economic integration and development clustering. Study panel data was obtained from the World Federation of Exchanges (WFE) database on the sample period 1993-2012, and country regional categorization adopted from the same database. The index series were then first-differenced and the differences expressed as percentage changes over one lag. The aggregated indexes were then grouped on continental and economic development clusters, making up a sampling base of 67 series. The descriptive analysis techniques involved included the simple and compounded arithmetic means, the coefficient of variation, Correlation ratio (η), and Pearson's correlation coefficient. The study used a 5% significance t- test, ANOVA and the Pearson's Chi-square of independence on the data. The empirical result affirmed that while economic integration did not affect stock market return co movement.

Keywords: Development, Integration, Co movement, Diversification.